MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

June 15, 1999

The Capital Projects and Bond Oversight Committee met on Tuesday, June 15, 1999, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

<u>Members</u>: Representative Jodie Haydon, Chairman; Senator Tom Buford; Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests: Bill Hintze, Earl Clemmons, Joe Lancaster, and Mark Coleman, Governor's Office for Policy and Management; Jim Abbott, Paul Hoffman, Don Jeffers, Joe Meyer, and Terry Parker, Department for Facilities Management; Secretary John McCarty, Mark Board, and Rhonda Clements, Finance and Administration Cabinet; Michael Hardy, Kentucky Center for the Arts; Bart Hardin, Tom Howard, and Nora Marshall, Office of Financial Management and Economic Analysis; Dr. Robert Tarvin, School Facilities Construction Commission; Mary Allen and Ken Clevidence, University of Kentucky; John Yates, Murray State University; Gary Grogan, Kentucky Community and Technical College System; Ken Walker and Dennis Taulbee, Council on Postsecondary Education; Woody Baldwin, Kentucky State University; Porter Dailey, Morehead State University; Tom Engstrom, Department of Education; Mike Hough and Jim Owens, Department of Fish and Wildlife Resources; Londa Wolanin, Kentucky Higher Education Assistance Authority; Bob Bender, Department of Parks; John Brazel, Kentucky Chamber of Commerce; John Nicholson, Kentucky Horse Park; David Clinkenbeard, Historic Properties; Charles Harman, Transportation Cabinet; Kevin Barber; Ken Hunt; David Garr, Justice Cabinet; Mark Mangeot, Natural Resources and Environmental Protection Cabinet; Kim Link, Lola Lyle, Steve Mason, and Charles Shirley, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Jack Affeldt, and Shawn Bowen.

<u>Press</u>: Tom Loftus, *Courier Journal*; Mark Chellgren, Associated Press, Dave Baker, *State Journal*; and Tony McVeigh, *Kentucky Network*.

Representative Damron made a motion to approve the minutes of the May 18, 1999 meeting as submitted. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon reviewed correspondence items in members' folders, including the Kentucky Lottery Corporation's monthly financial status report for April 1999, and correspondence from the Council on Postsecondary Education notifying the Committee of its approval of the University of Louisville's proposal to change the site of its research building from the Belknap Campus to the Health Science Center Campus in downtown Louisville.

Chairman Haydon said the first item of new business was a report by Finance Cabinet Secretary John McCarty regarding several capital projects authorized by the 1998 General Assembly.

Secretary McCarty began his presentation by discussing an upgrade from Moody's Investors Service on the state's debt securities. He said Moody's recently announced it had upgraded certain Kentucky debt securities from A2 to Aa3, a two-step increase. He said this action by Moody's affirmed efforts by this administration, in conjunction with the legislature and the newly formed Kentucky Asset/Liability Commission, to meet state financial objectives. The ratings increase was based on the way the state administers its Budget Reserve Trust Fund, its consensus forecasting system, and surplus expenditures. He said the other rating agencies, Fitch and Standard and Poor's, may also upgrade their ratings of the state's bonds.

Secretary McCarty praised the staff at OFMEA and acknowledged the Committee's support of legislation that allows the state to deal in a responsible manner with financial management of the state.

Representative Damron commended Mr. Don Mullis, Executive Director of OFMEA and his staff, and said through the creation of the Kentucky Asset/Liability Commission, they have moved the state's financial management practices into the 21st century.

Secretary McCarty briefly discussed several capital projects that would be reviewed later in the day. He then discussed the new office building for the Kentucky Higher Education Assistance Authority (KHEAA). The project was authorized by the 1998 General Assembly with 100% agency funds. He said a Frankfort site should be selected for the project before the end of the calendar year.

Secretary McCarty then discussed the Capitol Master Plan. He said the project consultants are in the final phase of the master plan, and would be reporting to the Capitol Restoration Committee at its June 16 meeting. Secretary McCarty said he would be happy to update the Committee on the master plan after that meeting.

Secretary McCarty reported on the status of the new Transportation Cabinet Office building, authorized at a scope of \$87 million by the 1998 General Assembly. He said the Governor recently announced the building would be sited on Mero Street. The decision to site the Transportation Cabinet building downtown was based on overall

cost comparisons, existing infrastructure, the proximity to existing Commonwealth facilities, and the impact on the existing residential neighborhoods. Secretary McCarty said no work in terms of the design or the architectural schematics of the building has been done.

Secretary McCarty said there are three potential methods of constructing the new Transportation Cabinet building: 1) design-bid-build, which is a traditional method of procuring an architect for design and bidding the project once the design is complete; 2) design-build, which involves the state entering into an agreement with a team composed of an architectural firm and a construction firm; and 3) build-to-suit, which is a design-build procurement with financing by the design-builder.

Secretary McCarty said the Cabinet's objective is to construct the highest quality building in the shortest time with the least expensive financing method. He said based on current interest rates and the recent increase in Kentucky's bond rating, he did not believe private financing is likely to be used for the new Transportation Cabinet building or any other facility authorized by the 1998 General Assembly. However, he said he recently learned that West Virginia and New York are doing build-to-suit through private sector financing on a tax-exempt basis, and for that reason, he did not want to preclude the alternative method of financing construction.

Secretary McCarty said design-build procurement is being considered for several reasons: there is only one contract for design and construction, meaning single-source responsibility; the design-build method enhances the project budget control; and the state will get an early guaranteed maximum price and be on fast track construction without risk since the construction can begin after the guaranteed maximum price is set.

Secretary McCarty reported four out of approximately 40 parcels of land needed for the Transportation Cabinet building are now under contract. Site demolition and clearing will begin in mid-July 1999 and run through June 2000; and construction should be complete by 2002. The current appropriation for the project is \$87 million, and Secretary McCarty indicated that the Finance Cabinet had included in its Six-Year Capital Plan, submitted to the Capital Planning Advisory Board, a parking garage for the new building.

The final capital construction project Secretary McCarty discussed was the new 1,790 Medium Security Facility for Men. The Finance Cabinet, in collaboration with the Justice Cabinet, conducted a cost and location feasibility study to determine the best location for the new facility. Based upon the results of the study, it was concluded that to maintain the greatest amount of flexibility and to fulfill the requirements of the Department of Corrections, two expandable 895-bed facilities, one in Knott County and one in Elliott County, should be constructed. Secretary McCarty said although there are construction challenges at each site, they can be addressed.

Secretary McCarty said the prison workplan involves the selection of an engineering firm to do site master planning and civil engineering for the infrastructure. He said he is not sure if design-build or the traditional design-bid-build method of construction will be used. In either case, an architectural and engineering firm will be selected to do programming for both prisons and to prepare requests for proposals if they decide to use design-build. According to the workplan, the prisons should be completed by November 2003. Secretary McCarty said this project was authorized at a scope of \$3,440,000 in state bond funds for design and site acquisition, and construction funds of \$95 million for the Knott County site and \$88 million for the Elliott County site will be sought during the next legislative session.

Representative Damron said a number of counties have built jails, and to pay their operating expenses they have taken state prisoners. He asked if anyone in the Department of Corrections or in the Finance Cabinet has prepared projections on the number of inmate beds the state will need now through the next 20 years, taking into account the number of county beds available. Secretary McCarty said he did not know if anyone is looking at figures on a county by county basis, but the feasibility study done for the medium security prisons in Elliott and Knott Counties did include projections on the need for medium-security beds. Representative Damron said the state is making a large investment in the two new prisons, and it would be prudent to consider designating a state agency or a cabinet to monitor the availability of county jail beds for state use and to prevent overbuilding of jail facilities. He said he was interested in possibly sponsoring legislation to accomplish this.

In response to a question from Representative Damron, Secretary McCarty said they do monitor the number of beds available at state prisons, but they do not take into consideration available beds at county jails. He said that would be a question for the Department of Local Government, and he would be happy to try and get an answer. Mr. Hintze suggested that the Committee may want to ask Corrections Commissioner Sapp and his staff to appear before the Committee to discuss the national model they use to do population projections.

In response to a question from Representative Damron, Mr. Hintze said it is basically a county decision whether or not to build a jail, but it is the state's decision whether or not to put state prisoners in it. Representative Damron said if the state could contract with a county to provide a certain number of beds before issuing bonds for jail construction, the county would have much more marketable bonds. Mr. Hintze said that private prisons, such as Otter Creek, Lee County, and Marion County, are guaranteed by the state a minimum number of prisoners at a set price. He said they could explore the possibility of contracting with county jails for bed space.

Representative Wayne asked if transportation patterns and commuting were taken into account when siting the new Transportation Cabinet building. Secretary McCarty said a traffic study was done and it was determined while a few improvements are needed, no major changes in infrastructure are required.

Representative Wayne asked if the same criteria used for the Transportation Cabinet building will be used when siting the KHEAA building. Secretary McCarty said they will have to look at the user agency's requirements, but hopefully the KHEAA building can be located within the same general area as the new Transportation Cabinet building.

Representative Wayne said by siting the new Transportation Cabinet building in a core urban area, the state is taking advantage of the local infrastructure. He said he hopes there is some consistency in consideration of the site selection of the KHEAA building.

Chairman Haydon thanked Secretary McCarty for appearing before the Committee. He then introduced Mr. Ken Walker, Vice President for Finance, Facilities, and Data Management, Council on Postsecondary Education (CPE), to report on agreements approved for the Northeast Regional Postsecondary Education Center in Prestonsburg and the West Regional Postsecondary Education Center in Hopkinsville.

Mr. Walker said the Council recently approved plans that were jointly prepared by the Kentucky Community and Technical College System (KCTCS) and Morehead State University (MoSU) for the Northeast Regional Center in Prestonsburg, and plans developed by KCTCS and Murray State University (MuSU) for the West Regional Center in Hopkinsville. With the approval of these two centers, the Council has now approved plans for all five of the 1998 authorized regional centers to be administered jointly by KCTCS and the regional universities. (Because a decision was made to build separate facilities in two different locations for the Southeast Regional Center, there are six facilities.) Mr. Walker said in the case of the Northeast Regional Center in Prestonsburg, KCTCS will take the lead in planning, designing, and construction. He said MuSU will be the point of contact for the center in Hopkinsville, and will take the lead on the construction of that facility.

Representative Wayne asked how much of the project funds will be used for infrastructure at the West Regional Center in Hopkinsville. Mr. Walker said he did not have the answer to that question; the allocation of funds was not part of the plan. Mr. John Yates, Dean of Continuing Education at MuSU, said the University is in the process of soliciting architectural and engineering services and have not yet identified infrastructure costs.

In response to another question from Representative Wayne, Mr. Yates said the West Regional Center will be constructed in an area outside of town. Representative Wayne noted the site chosen for the West Regional Center has very little infrastructure, which adds to the cost of construction, increases commuting cost, air pollution, and congestion. He asked what criteria was used for selecting the site. Mr. Yates said a committee, made up of local representatives from Hopkinsville, looked very closely at the growth patterns in Hopkinsville over the past 10 years. It was the

committee's recommendation that the location on the south end of the city was preferable to the community college campus or a downtown site.

Representative Wayne said he was concerned with the idea of building a new facility outside of the existing infrastructure. He said it is the state's responsibility to invest in local communities in a wise way, and although local opinions are very valuable, it is not the only criteria that should be used. He said the state should not contribute to urban sprawl, but should save valuable farm land and develop a set of criteria that requires investment in core cities.

Mr. Yates said 480 acres of land were acquired by the Racer Foundation, a non-affiliated foundation of the University; the Foundation plans to give approximately 35-40 acres of land to the University for the West Regional Center. Representative Damron asked if the University intends to build a community college on that site. Mr. Yates said they did not, and the agreement the University signed with KCTCS and the Council regarding the West Regional Center states Hopkinsville Community College and Madisonville Technical College will be responsible for all lower division courses at the Center. He explained that a family in Hopkinsville was willing to make a gift of some of their property to the Foundation, but did not want to break their farm into parcels. Consequently, the Racer Foundation purchased the 480 acres of which 35-40 will be given to the University. The Foundation plans to sell off most of the other land and hopefully will make money to support the University athletics program.

Representative Damron noted that MuSU, as a "622" institution, now administers its own capital construction program in lieu of management by the Finance and Administration Cabinet. As such, the University can no longer utilize the state's capital construction contingency fund for cost overruns. He asked what will be done to make sure MuSU has adequate resources set aside for cost overruns for the West Regional Center. Mr. Walker said when MuSU opted to manage its own construction, they forfeited the opportunity to certain state contingency accounts. He said the Council talked at some length with MuSU before the decision was made and the University fully understands the implications of becoming a 622 institution and managing construction projects. He said it was his understanding that one reason MuSU is taking the lead on this project is because it is a 622 institution. The University of Louisville and the University of Kentucky have had 622 status for some time and have indicated there are benefits, including the ability to complete projects sooner than can be done under the Finance Cabinet. Mr. Walker said the West Regional Center will be the only such regional center constructed by a university administering its own capital construction program, and the Council's staff will monitor the project and include it in the monitoring provisions relating to the postsecondary regional centers that the staff will recommend to the Council.

Senator Buford expressed concern that the West Regional Center is to be built at a site other than what was originally authorized. He said also he understood there was some disagreement between MuSU and Hopkinsville Community College as to the management and operation of the West Regional Center. Mr. Walker said from the Council's perspective, the entity that manages and operates the facility is not the critical issue. He said the critical issue and what is of utmost importance to the Council is that the facilities are jointly planned and used, and that instructional programming ranging from adult literacy up to and including masters degree programming, and even beyond that, if necessary, is offered. He said that is what the Council will be monitoring.

Mr. Yates added that a Memorandum of Agreement was signed by Dr. McCall, President of KCTCS; Dr. Alexander, President of MuSU; and Dr. Davies, President of the Council on Postsecondary Education. The project plan itself, which was approved by Dr. McCall, by Dr. Alexander, and by the Council, states the West Regional Center is to be a shared and jointly used facility. He said while MuSU will be responsible for the facility, they see the West Regional Center as a facility to be shared by all of the postsecondary education institutions in the Hopkinsville area.

Representative Damron noted that the General Assembly created KCTCS, an entity that was supposed to be on equal footing with the other universities. He said it appears that the General Assembly may have unintentionally turned control of the regional postsecondary education centers over to the regional universities. He asked why KCTCS will not be responsible for managing and operating the West Regional Center. Mr. Walker said among the six regional collaborative facilities, three of the facilities are being constructed and operated by KCTCS and three are being constructed by the regional universities.

Representative Damron made a motion to accept Mr. Walker's report. The motion was seconded and passed by voice vote.

Chairman Haydon then introduced Mr. Ken Clevidence, Senior Director, Procurement and Construction, Capital Projects Management Division, University of Kentucky (UK), to discuss a project report. Mr. Clevidence reported the University's purchase of a Stereolithography SLA 3500 System. This piece of equipment will cost \$333,000 and will be used by the Center for Robotics and Manufacturing Systems to provide updated and expanded services to Kentucky industrial clients. The equipment will be paid for with College of Engineering funds and income earned from use of the equipment.

Chairman Haydon said purchases of research equipment are to be reported to the Committee, but no additional action is required.

Chairman Haydon then introduced Mr. Porter Dailey, Vice President for Administration and Fiscal Services, Morehead State University (MoSU) and Ms. Mary Lynn Collins, the Committee's Staff Administrator, to report a lease-purchase agreement for the Morehead State University Foundation. The University will enter in a lease-purchase agreement with the MoSU Foundation to purchase property adjacent to a 9-hole golf course owned by the University at a cost of \$18,929 annually, for a total of

\$378,577. At the end of the 20-year lease period, the University will have the option to purchase the property for \$1. Ms. Collins said the Committee received a copy of the lease several months ago after it was executed, and at issue was whether the lease was a lease-purchase which requires Committee review, or an option to purchase which does not require review if the annual cost is less than \$100,000. Upon review by Committee staff, it was determined the lease was a lease-purchase agreement since the lease agreement is based on an amortization schedule and rent payments are to be applied towards acquisition.

Representative Damron made a motion to approve the lease-purchase agreement for the MoSU Foundation. The motion was seconded by Senator Buford and passed by voice vote.

Chairman Haydon then called on Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management (GOPM), to discuss seven projects submitted by the Finance and Administration Cabinet.

Mr. Hintze reported an allocation of \$100,000 from the Emergency Repair, Maintenance, and Replacement Account for a sewage treatment inflow/infiltration repair project at the Kentucky Horse Park. He said the Horse Park has exhausted its original \$50,000 allocation from the Emergency Account that was used for design. Secretary McCarty has recommended that funds from the Emergency Account be used for construction because of an agreed order already signed with the Natural Resources Cabinet requiring the Horse Park to make a good faith effort to improve the sewer system and ultimately resolve the problem. With the \$50,000 allocation from the Emergency Account, the revised project scope is \$150,000.

Mr. Hintze then reported an allocation of \$592,000 from the Emergency Account to replace three handicap lifts serving the Capitol, the Capitol Annex, and the Capitol Parking Garage. He said the handicap lifts will be replaced in order to comply with current Americans with Disabilities Act (ADA) guidelines. The project should be completed before the next regular session of the General Assembly.

Chairman Haydon said allocations from the Emergency Account must be reported to the Committee within 30 days of allocation, but no action is required.

Mr. Hintze next discussed an allocation of \$675,000 from the Capital Construction and Equipment Purchase Contingency Account for the Kentucky Center for the Arts Enhancement Project. He introduced Mr. Michael Hardy, Executive Director, Kentucky Center for the Arts. Mr. Hintze said this project received a line-item appropriation of \$4.5 million from the 1998-2000 Surplus Expenditure Plan for enhancements at the Kentucky Center for the Arts. When the Center determined the enhancement project would cost substantially more than the funds available, the project was split into three phases. Phase I improvements include the chiller, a smoking area in the north lobby, the plaza modification, the glazing of windows and glass exterior,

and improvements to the main lobby. Mr. Hintze indicated that the Center has now determined Phase I will cost substantially more than \$4.5 million, and unless money is added to this project now, the Center will have to delay Phase I until they can seek additional funds in the next regular session. The rest of the enhancements are less costly and of a lower priority.

Mr. Hintze said normally contingency funds are not allocated until bids have been taken, but in consultation with Finance, Facilities Management, and the Kentucky Centers for the Arts staff, it was determined that in this case, they needed to take action now. Consequently, an allocation of \$675,000 (15% of the project scope) has been approved from the Capital Construction and Equipment Purchase Contingency Account. They will try to structure the bids with sufficient flexibility so at least the major enhancements can proceed.

In response to a question from Representative Wayne, Mr. Hardy said the Center's average net revenues are \$7 million per year, and of that amount, the Center uses approximately \$200,000 per year for capital improvements.

Representative Wayne asked if the tobacco companies had been approached to pay for the smoking lobby which is part of Phase I. Mr. Hardy said the tobacco industry has pledged \$300,000, of which approximately \$165,000 is in hand. He said the Center is in negotiation with the Phillip Morris Company for the balance of the funds, and is unsure how successful they will be in those negotiations since the company is relocating its headquarters outside of Kentucky. Representative Wayne asked if the Committee has been given documentation of the pledges. Ms. Collins said the pledges from the tobacco industry were not included as part of the project presented to the Committee. Mr. Hintze added that the private pledges are not part of the project scope Secretary McCarty approved and are not being reported as such. He said the donations would be added to the Fund balance or for another project at the facility. Mr. Hardy said the Center was advised by the Department of Facilities Management not to co-mingle donations with the state funds for the construction project, but to reserve them for furnishings and portable bars for the smoking lobby.

Representative Wayne said the legislature appropriated \$4.5 million for this project, and according to statute, the Center is supposed to use its revenues for capital improvements, as opposed to asking for money from the Contingency Fund. He asked how much of Center's revenues have gone to cover the expected cost overrun for this project. Mr. Hardy said they have funded other capital needs with their operating revenues, not with any revenues received from earned income or fundraising. He said although they spend \$200,000-\$250,000 a year in capital improvements, that figure is outside the scope of this particular work. Mr. Hintze added that historically, the revenues generated by the Center and used for replacement and repairs as the statute requires, have been used for minor projects, those less than line-item status, and none of the Center's line item projects in this biennial budget are receiving those funds.

Representative Wayne said he received a call from one of the Center's board members, and when questioned about the project, the board member said the Center was asking for \$675,000 (15% of the authorized funds) because they knew they could get 15% of the project scope. Representative Wayne said normally the Committee does not approve contingency allocations in that manner because the Fund is very limited.

Representative Wayne suggested the Committee take into account the private donations and other revenue sources available to the Center, or consider if the project can be scaled back. He said there are strong feelings in his district about whether or not state moneys should be supporting a smoking lounge for the Center when people can always step outside and smoke. He said he had reservations about the project without being more thoroughly briefed.

Mr. Hintze said projects are not automatically entitled to an allocation from the Contingency Fund equal to 15% of the project scope. He said they carefully review contingency allocation requests, and have been very conservative in the allocation of contingency funds this biennium.

Representative Wayne said his statements are not a reflection on Mr. Hintze or Secretary McCarty, and he acknowledged and commended their conservative attitude in regards to the Contingency Fund. However, he said in this case, there may be other options to explore, and he was very reluctant to approve the cost overrun until he hears if other options have been considered or could be pursued.

In response to questions from Senator Buford, Mr. Hardy said the exterior of the Center is largely glass. The project includes replacing glazing of the entire facility. He said leaks through the glazing have caused a good deal of indoor damage.

In response to another question from Senator Buford, Mr. Hardy said originally the cost overrun was close to \$2 million. The Center decided to prioritize enhancements and reduced the scope for the smoking lobby from \$1.5 million to \$1.1 million. Mr. Hintze said if the 15% allocation from the Contingency Fund does not cover the enhancements, one option is to come back to the General Assembly next year and seek additional funds, or there may be some opportunity for additional private fundraising or to use agency receipts.

Representative Wayne said the Center has some urgent needs and as a compromise, he suggested the Committee approve an allocation of \$375,000 from the Contingency Fund, and the Center can utilize the \$300,000 in pledges from the tobacco industry for the remainder of the enhancements.

Senator Buford said the project has already been approved by Secretary McCarty. Representative Wayne said the Committee has to take action on this project. He said Secretary McCarty can always override the Committee's decision, but at least there will be a statement of the Committee's intent.

Representative Wayne made a motion to approve \$375,000 from the Contingency Fund for the Kentucky Center for the Arts Enhancement Project with the request that at the next meeting the Center submits documentation of pledges of private funds for the project. The motion was seconded by Senator Buford and passed by voice vote.

Next, Mr. Hintze discussed the renovation of the Kain Ford Facility for the motor pool at Kentucky State University (KSU). He said the current authorization is \$908,000 (as originally provided in the 1990-92 budget), and the University is asking for a \$136,200 (15%) scope increase based on bids already received and evaluated. He said the project has been redesigned and will be rebid in July. Mr. Hintze said the Cabinet has agreed to allow the University to use its agency funds to supplement the project scope.

Representative Damron made a motion to approve the cost overrun for the KSU Kain Ford Facility Renovation project. The motion was seconded by Representative Wayne and passed by voice vote. The revised project scope is \$1,044,200.

Mr. Hintze then discussed a \$450,000 allocation from the Kentucky Heritage Land Conservation Fund (KHLCF) to the Department of Fish and Wildlife for the Peabody Wildlife Management Area. The funds will be used to complete a boundary survey of approximately 33,900 acres in Muhlenberg and Ohio Counties. Mr. Hintze said the KHLCF Board has approved a detailed survey of the site at a total cost of \$979,000.

Representative Wayne noted last year the Committee was told the survey would cost \$529,000, and the cost has now increased to \$1 million. He asked why there has been such a huge increase in cost. Mr. Jim Owens, Department of Fish and Wildlife Resources, said in November 1995 the Department negotiated with the Conservation Fund in Arlington, Virginia, to purchase land in Western Kentucky owned by the Peabody Coal Company. The Conservation Fund agreed to purchase the land for the Commonwealth at a cost of \$5 million; in turn, the state committed to handle the administrative tasks and survey the property. Initially, the project scope was \$529,000, but after a qualified surveyor was hired, the cost estimate for the full survey came in at approximately \$925,000.

Representative Wayne asked Mr. Owens about the expense, and Mr. Owens agreed that the cost appeared high, but compared to the cost per acre for previous Department surveys, it does not appear to be out of line.

Mr. Jim Abbott, Director, Division of Real Properties, Department for Facilities Management, commented on the need of a boundary survey. Previously, the Department for Fish and Wildlife Resources acquired property in Bell County which they believed consisted of 5,000 acres. Once a survey was conducted, however, they

found the property consisted of only 3,200 acres. Mr. Abbott indicated that in the agreement the state made with the Conservation Fund, the state committed to make certain that Peabody provided the state with 33,000 acres.

Chairman Haydon said no action was required for this item.

The final item Mr. Hintze discussed involved four allocations from the Statewide Deferred Maintenance Fund. He said the Department of Education was allocated \$250,000 for a maintenance pool to fund small projects at the School for the Deaf, the School for the Blind, and the FFA Leadership Training Center. He said the Department for Facilities Management received three allocations from the Fund: \$125,000 to degrease and paint the Capital Plaza parking garages; \$395,000 for elevator upgrades in various state buildings; and \$250,000 to upgrade the Spindletop HVAC system.

Chairman Haydon said no action is required on reports of allocations from the Statewide Deferred Maintenance Fund.

Mr. Hintze then gave a status report on the Statewide Deferred Maintenance Fund. He said a new provision in the Appropriations Bill dedicates a portion of investment income earned on surplus bond proceeds to the Statewide Deferred Maintenance Fund. He said at the end of the last fiscal year there was a previous call on most of that money to assure balance of the General Fund budget; however, at the end of this fiscal year, they will transfer approximately \$6 million of the investment income to the Statewide Deferred Maintenance Fund. He said there is a huge backlog of need, and they plan to be "very assertive" in addressing those needs.

Chairman Haydon then called on Mr. Jim Abbott to discuss two lease reports. Mr. Abbott first discussed a lease modification report for the Council on Postsecondary Education (PR-3961, Franklin County). The Council plans to increase its office space at Capital Complex East in Frankfort by 2,651 square feet to accommodate staff of the Commonwealth Virtual University and the Commonwealth Virtual Library. In order to gain the space, the Council agreed to pay relocation expenses, including additional rent required for the remainder of the biennium, for the Kentucky Information Resources Management Commission which previously occupied the space. Mr. Abbott said the Council also plans to eventually lease additional space in the Capital Complex currently occupied by the Board of Pharmacy. (The Council reported last month lease of additional space in the Complex previously occupied by the Long Term Policy Research Center.) As a result of this latest lease modification, the annual cost of the Council's lease will increase by \$21,075 to \$176,728.

Mr. Abbott then discussed a lease modification with an annual cost exceeding \$200,000 for the Finance and Administration Cabinet, Division of Printing (PR-2323, Franklin County). He said the lease term expires June 30, 1999, and his office has renegotiated the lease for an additional four years at a rate of \$3.97 per square foot, a \$.30 increase. When the lessor was unwilling to renew under current terms, the

Division of Real Properties advertised for space, but the only respondent was the existing lessor, Burch & Associates (Fred Burch III, Fred Burch Jr. & Jack Burch). Mr. Abbott said the Division is trying to keep rental rates within guidelines based on the consumer price index, particularly in cases of noncompetitive situations like this one. He said the rate increase was well within those guidelines. The annual cost of the lease is \$216,405.

Representative Wayne made a motion to approve the lease renewal for the Division of Printing. The motion of was seconded by Representative Marcotte and passed by voice vote.

Next, Mr. Tom Howard, Deputy Director, Office of Financial Management and Economic Analysis (OFMEA), presented three new bond issue reports. The first bond issue report Mr. Howard discussed was for the Kentucky Higher Education Student Loan Corporation (KHESLC) Student Loan Revenue Bonds, 1999 Series A and 1999 Series B. Mr. Howard said the gross proceeds for the Series A and Series B bonds are \$51,350,000 and \$23,650,000 respectively; the proposed date of sale is June 22, 1999; the bonds are expected to be rated Aaa by Moody's; the anticipated interest rate for the Series A bonds is 5.0% and 3.30% for the Series B bonds; and the maturity date is 2029. Mr. Howard said the bond issue is a negotiated sale with Hawkins, Delafield & Wood as bond counsel; PaineWebber, Inc. as underwriter; Kreig, DeVault, Alexander & Capeheart as underwriter's counsel; and Bank One as trustee.

Representative Wayne made a motion to approve the new bond issue report for KHESLC. The motion was seconded by Senator Buford and passed by voice vote.

Mr. Howard elaborated on the Moody's upgrade Secretary McCarty had previously discussed. He said on June 9, debt obligations of the School Facilities Construction Commission were upgraded to AA3 as a result of the state upgrade.

Next, Mr. Howard reported on Kentucky Asset/Liability Commission (ALCO), 1999 Project Notes, General Fund Second, Third, and Fourth Series (Bond Anticipation Notes). The proceeds from these three series will provide construction financing for General Fund supported projects. Mr. Howard said the project note size was \$404,300,000 (\$134,500,000 for the second series; \$137,100,000 for the third series; and \$132,700,000 for the fourth series). The anticipated interest rate is 3.25%; the notes are callable at face value on any interest payment date; and are rated MIG1 by Moody's; F-1+ by Fitch IBCA; and SP-1+ by Standard and Poor's. Mr. Howard said the bond issue is a negotiated sale with Peck, Shaffer & Williams as bond counsel; and Merrill Lynch & Co., Paine Webber, Inc., and Salomon Smith Barney as remarketing agent. The underwriter's counsel and the trustee have not been determined.

Representative Marcotte made a motion to approve ALCO 1999 Project Notes, General Fund Second, Third, and Fourth Series (Bond Anticipation Notes). The motion was seconded by Representative Wayne and passed by voice vote.

The next bond issue report was for the ALCO General Fund Tax and Revenue Anticipation Notes 1999. Mr. Howard said this is the third year OFMEA has issued Tax and Revenue Anticipation Notes (TRANs), and they expect to make \$4.2 million net from the 1998 TRANs. Gross proceeds of the 1999 TRANs, \$400,700,000, will be used to manage cash flows of the General Fund during FY 2000. He said the bonds will be sold on June 22, 1999; the maturity date is June 28, 2000; the anticipated bond ratings are SP-1 by Standard and Poor's; MIG1 by Moody's; and F1+ by Fitch IBCA. Mr. Howard said the total indenture this year will be \$400 million, of which OFMEA expects to sell \$300 million initially on June 22, 1999. The anticipated interest rate is 3.5% and proceeds will be reinvested at a rate of 5% or higher. The bond issue will be a negotiated sale with Peck, Shaffer & Williams as bond counsel; OFMEA as financial advisor; Salomon Smith Barney as underwriter; Brown, Todd & Heyburn as underwriter's counsel; and Chase Manhattan as trustee.

Mr. Howard said should expenditures warrant going back to the marketplace, OFMEA may issue an additional \$100 million in TRANs. He said because of complexities with the tax code and a relatively short period of time to issue the notes, OFMEA would not be able to appear before the Committee before they issue new notes.

Senator Buford made a motion to approve ALCO General Fund Tax and Revenue Anticipation Notes 1999. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Howard then discussed two follow-up reports for previously approved bond issues. The first follow-up report was for Northern Kentucky University Consolidated Educational Buildings Revenue Bonds, Series J and Series K. The gross proceeds are \$15,795,000 (\$3,500,000 for Series J and \$12,295,000 for Series K). Gross proceeds from the Series J bond issue will be used to finance a parking garage at Northern Kentucky University as authorized by the 1996 General Assembly; and gross proceeds from Series K will be used to refund Series F and Series G bonds. He said the new money portion has a May 1, 2019, maturity date. The bonds are callable on or after May 1, 2009, at a redemption price of 101%; the interest cost was 4.669% compared to the bond buyer index of 5.07% for the same period; and the bonds are rated A3 by Moody's and A- by Standard and Poor's. Mr. Howard said the bond issue is a competitive sale with Rubin & Hays as bond counsel; Seasongood & Mayer as financial advisor; and Huntington National Bank as trustee.

The remaining follow-up report was for State Property & Buildings Commission Revenue Refunding Bonds, Project No. 63. Gross proceeds of \$25,440,000 will be used to fund life safety projects and deferred maintenance projects at the Commonwealth's eight universities and KCTCS. He said the bond ratings were A2 by Moody's and A+ by Standard and Poor's and Fitch; the net interest rate is 5.03%, compared to the bond buyer index of 5.21% for the same period. The first call date is

November 1, 2009, at par. The bond issue is a negotiated sale with Peck, Shaffer & Williams as bond counsel; OFMEA as financial advisor; Merrill Lynch as underwriter; Brown, Todd & Heyburn as Underwriter's Counsel; and Bank of Louisville as trustee.

Chairman Haydon said these bond issues were approved at earlier Committee meetings and no further action is required.

Chairman Haydon then asked Mr. Howard to present eight new School Facilities Construction Commission (SFCC) bond issues, none of which required a tax increase: Boone Co. - \$10,000,000 to build a new elementary school; Carroll County - \$1,135,000 for a middle school auditorium project; Fairview Independent (Boyd Co.) - \$3,085,000 for elementary school additions; Jessamine Co. - \$7,830,000 to build a new elementary school; Marion Co. - \$1,595,000 for improvements to a middle school, an elementary school, and a vocational school; Metcalfe Co. - \$173,000 for door replacement projects at various district schools; Muhlenberg Co. - \$5,510,000 to build a new middle school; and Oldham Co. - \$4,300,000 for renovations at one high school and two elementary schools.

Senator Buford made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Representative Wayne and passed by voice vote. Because of a possible conflict of interest, Representative Damron abstained from the vote.

Ms. Collins said there were three 100% locally-funded school bond issues, none of which required a tax increase: Ky. Interlocal School Transportation Association/Ky. School Board Association - \$140,000,000 to provide funds to meet cash flow shortages for approximately 140 school districts; Marion Co. - \$215,000 for energy conservation improvements at district elementary schools and one middle school; and Ohio Co. - \$1,000,000 for energy conservation improvements at various district schools.

Chairman Haydon said no further action was required on these locally-funded school bond issues.

Also enclosed in members' folders was one information item: a status report of the Department of Juvenile Justice Capital Projects.

Chairman Haydon said the next Committee meeting is scheduled for July 13, 1999 at 1:00 p.m. in Room 125 of the Capitol Annex. He noted that the Capital Planning Advisory Board will hold its two-day meeting on July 7 and July 8 at the Council on Postsecondary Education, and encouraged members to attend.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded by Representative Wayne and passed by voice vote. The meeting adjourned at 3:10 p.m.